CHANGES IN EASTERN EUROPE

IMPLICATIONS FOR DEVELOPING COUNTRIES

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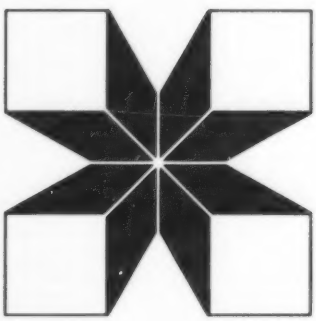

CANADA

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Implications for developing countries

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I Introduction

The dramatic - and largely unexpected - changes in Eastern Europe in 1989 are a major turning point in Europe's post-war history. The changes not only are having profound effects in Eastern Europe itself, but also for the European continent, for East-West relations, and for international relations in their broadest and most global sense.

Clearly these dramatic changes will have a significant impact on developing countries; both new opportunities and new problems will arise. In what follows, we will examine mainly the direction of likely economic effects of East European changes in developing countries; as this will be a preliminary assessment, suggestions will be made for implications for future research relevant to LDC policy-makers.

The paper will be structured as follows:

In the next section (II) we will look at the size of East European economies, and their links with the international economy; this should provide a first quantitative framework for examining the magnitude of potential impacts on developing economies. Section III will examine briefly the nature of economic and political changes in Eastern Europe, as well as make some comments about possible likely trends. Section IV will look at the implications of these changes for LDC's, focussing mainly on effects on trade and financial flows, but examining also briefly more qualitative effects, such as distraction of policy-makers' attention. Section V will draw out the main conclusions from the previous analysis, and define areas of further economic research potentially relevant to LDC policy-makers; some reference will also be made here to relevance of policy experience and research in LDC's for East European policy-makers and researchers.

II Size of East European economies and their international relations

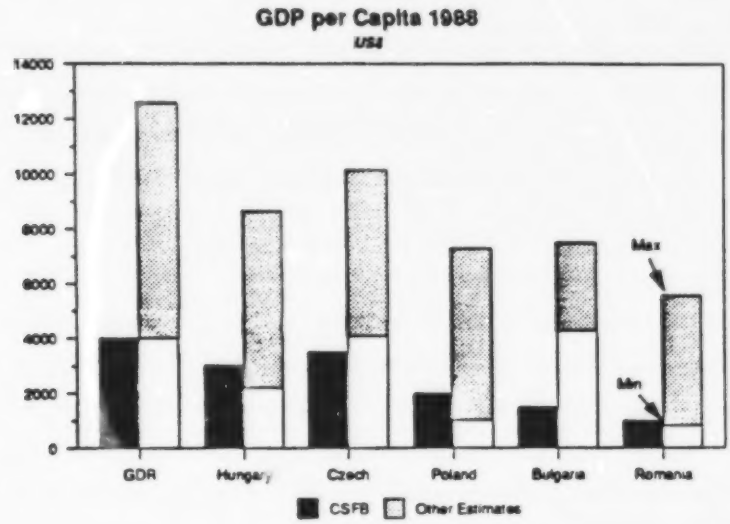
In examining East European economies, we will look mainly at seven countries: Bulgaria, Czechoslovakia, German Democratic Republic, Hungary, Poland, Romania and Yugoslavia.

Small size of population and trade; difficulties in estimating output

A first striking feature is the small size of these economies on a world scale, particularly as regards their population, their output and their trade flows.

The combined population of the seven countries is estimated at 136 million, 2.5% of the world total.[1] This is roughly the same population as that of Brazil; if the GDR is excluded, the region's population is only slightly greater than Nigeria.

As regards total output, and output per capita there is some difficulty in determining exact or even approximate magnitudes. Estimates vary quite dramatically. For example, as can be seen in Graph No.1, estimates for Hungarian GDP per capita vary between $2,200 (estimated by the World Bank) and $8,600 (estimated by the CIA)!



The difficulties are partly due to intentional biases in estimates. It has now been recognised in Eastern Europe that previous governments' statistics were intentionally distorted to show good economic performance, either through tampering with reports by the now deposed leadership or systematically biased methodological approaches; though these statistical deficiencies are being remedied, revisions are still incomplete.[2] The CIA, whose estimates are also widely used, may have also had a bias towards trying to exaggerate the Communist threat.

But the main problems in estimating output or output per capita in dollar terms are technical. Firstly, East European countries estimated Net Material Product (NMP), which excludes many services included in GNP. Secondly, there is the problem of what exchange rate to use; estimates based on purchasing power parity (PPP), which are widely used (for example by the CIA) give fairly high levels of GNP per capita (see Table 1), ranging from $5,500 for the poorest country to $12,500 for the richest one, placing the East European nations within the lower half of "high income" countries, as classified by the World Bank; estimates based on official exchange rates put these countries in a lower range, broadly within the category of "upper-middle-income" countries used by the World Bank. Several important sources, such as the OECD (see Table 1) use an intermediate - but fairly high - estimate, which would also place East European nations broadly in the "high-income" category.

Table 1

Alternative estimates of 1988 GDP per capita, in $

	CIA (a)	Plan Econ., OECD and Amex Bank Review (b)	World Bank (c)
Poland	7270	5453	2240
Hungary	8660	6491	1930
Czechoslovakia	10140	7603	
German Democratic Republic	12480	9361	
Bulgaria	7510	5633	
Romania	5490	4117	

Sources:
(a) CIA, Central Intelligence Agency, Handbook of Economic Statistics, 1989
(b) Plan Econ., Western Investor's Guide to Eastern Europe and Soviet Union, Plan Econ. Report Vol.V, No.42-43, November 1989; same figures used by AMEX Bank Review April 23, 1990 and by OECD Economic Outlook June 1990.
(c) World Bank, World Development Report 1989, Oxford University Press (New York), 1989.

In terms of the purpose of this paper, two implications stem from the GDP per capita figures. The first one relates to the total size of East European GDP. Even if fairly high estimates of GDP per capita are used, such as those by Plan Econ., OECD and Amex Bank Review, the total of GDP for Eastern Europe would reach around $700 billion, which is only around 15% of the output of the European Community, and around 3% of world production. Thus, as in the case of population and trade (discussed later) the East European region is, in terms of output, fairly small on a world scale.

A second issue relates to the level of GDP per capita and its' implications for aid and other official flows. Particularly if the higher range of estimates for GDP is the more precise one, this would place East European countries well above developing countries, and far closer to the relatively poorer countries of Europe, e.g. Greece or Spain. If this was the case, channelling of official flows (and grants) to Eastern Europe could be justified for important political, security or regional reasons, but not in terms of development assistance to poor nations; this gives clear support to the idea that official flows (and particularly grants) to Eastern Europe should be additional to aid to developing countries and should be granted through separate channels than aid assistance to developing nations.

To clarify this issue, some further research seems to be required on levels of GDP per capita in Eastern Europe, and some effort at harmonisation of these figures, amongst different sources, particularly official ones.

Complements to GDP figures can also be used, to give a broader indication of living standards and relative prosperity of nations; this seems particularly relevant when there is some dispute about exact comparative

levels of GDP figures. One such indicator, recently developed in a major UNDP Report,[3] focuses on human development, and measures this - for simplicity - according to three elements: Longevity, knowledge and decent living standards. As can be seen in Table 2, column 1, East European countries are all rather high in the ranking of human development; in an index going from 1 to 130, they all are in the range between 90 and 110, in the category of high human development, and standing fairly close to the most developed market economies, and well above most developing nations. Similar results are obtained if individual social indicators such as adult literacy rate, life expectancy (see columns 2 and 3 of Table 2) or under 5 years mortality rate[4] are examined.

Table 2

Countries	(1) UNDP human development index ranking	(2) 1985 Adult literacy rate (%)	(3) Life expectancy at birth (years) 1987
Some LDC's			
Niger	1	14	45
Bangladesh	23	33	52
Egypt	45	45	62
Philippines	65	86	64
Peru	74	85	63
Brazil	80	78	65
East European			
Romania	90	96	71
Poland	98	98	72
Yugoslavia	100	92	72
Hungary	101	98	71
Bulgaria	104	93	72
Czechoslovakia	106	98	72
German Democratic Republic	110	99	74
Developed			
USA	112	96	76
Spain	115	95	77
United Kingdom	121	99	76
Canada	126	99	77
Japan	130	99	78

Source: UNDP, op. cit. in (3)

At present, the economies of the region are poorly integrated into the world economy as regards trade. According to the Institute for International Finance (IIF) estimates, the convertible currency trade of these seven countries with the rest of the world accounted for only around 1.6% of world trade. If total trade is taken into account (thus including trade with the eastern trading bloc taking place in non-convertible currencies, estimated at prices significantly different from world market ones), the total figure, at $240 billion in 1988 is far higher, and represents roughly 4% of total world exports and imports.

In comparing with developing countries that have pursued export-led growth successfully, the East European role in world trade is very modest. For example, the combined convertible currency exports of the seven East European countries was only three quarters of the exports of Hong Kong and four-fifths of the exports of Korea and Taiwan.

Despite their low share of world trade, East European countries have accumulated sizeable external debt. IIF estimates total currency convertible debt at around $115 billion at end of 1989, equal to one quarter that of Latin America and one-third of Asia. It is interesting to stress that East European debt was equivalent to 190% of convertible currency export earnings, comparing favourably with a ratio of 290% for Latin America, but showing a far higher ratio than the average for Asia, at 90%.

The large debt overhang (of which almost 50% is to commercial banks) is one of the factors which will discourage new private lending to Eastern Europe; for this - and other reasons (discussed below) - there is a large demand for public international funding of East European economies (as well as public debt forgiveness).

The asymmetry of East European trade and financial integration into the world economy, may thus imply, especially in the short term, that the benefits of increased East European markets for LDC economies may be significantly outweighed by the deviation of public financial resources from LDC's to Eastern Europe. We will return to this issue below.

III Economic and political change in Eastern Europe; some likely future trends

Although the opening of the Berlin Wall acts as a powerful and convenient symbol of the dramatic changes taking place in Eastern Europe, the suddenness of these changes should not be allowed to disguise the ongoing nature of political and economic movements throughout this area. These began in Poland prior to Brezhnev's death in 1982, but had gained momentum since Gorbachov came to power. The whole process of change accelerated dramatically during 1989, firstly when Solidarity took on the leading role in government in Poland, and later when abruptly, spontaneous unrest broke out in East Germany, Czechoslovakia, Romania and Bulgaria, leading to major change in the political framework.

Similarly in the future, the timescale for change will of necessity be long. This is due both to the scale of the economic transformation now needed and the lack of political experience in running countries along democratic lines.

Observers in and of Eastern Europe initially indulged in what became known as "East Europhoria", that is a belief that rapid political and economic change would quickly lead to sustained growth. This over-optimism has begun to change rapidly as the magnitude of the task ahead began to become clear, and as economic performance began to deteriorate further in several countries in early 1990.

As the Economic Commission for Europe[5] clearly put it, "Political change may often be very rapid, but economic adjustment is much slower: the certainties of the central planning system have been eroded more quickly than the alternative mechanisms of the market can be put in their place."

In mid 1990 the eastern countries were facing a number of different challenges. Policy-makers are attempting to restore political and social stability at a time when they are implementing economic stabilisation programmes, many of which will impose heavy burdens on the population in the near future; simultaneously they have to introduce fundamental reforms leading to the replacement of central planning by a decentralised market system. As a result, in the short term, policy priorities in Eastern Europe are on economic stabilisation and putting in train market-oriented reforms rather than on growth per se. Though this is true as a general trend, naturally there are variations between countries, with Poland providing an example of a country whose main focus is stabilisation and Czechoslovakia hoping for an acceleration of growth in 1990. The case of East Germany is a special one; because of its very rapid economic and monetary union with West Germany, it seems to be suffering more in the short term (in terms of output fall) but may later grow more than other East European countries.

Two elements further complicate the East European economies' short-term outlook. One is that Eastern economic performance has been deteriorating in the recent past, with the 1989 performance probably the worst since the immediate post-war period. Apart from Czechoslovakia and the German Democratic Republic, output in Eastern Europe fell or stagnated in 1989; for the region as a whole, the Economic Commission for Europe estimates an increase of Net Material Product of a mere 0.5% in 1989, reflecting a steep decline from the previous performance in the 1980's (see Table 3).

Table 3

Growth rates, Net material products produced, Eastern Europe, 1981-90

	1981-85	1986	1987	1988	1989
Eastern Europe	2.2	4.6	3.2	3.1	0.5 (a)

(a) excludes Romania
Source: ECE, **op. cit.**

The other element complicating East European short-term outlook is the double oil shock dealt to them. Firstly, these economies had to adjust to the Soviet Union's decision to cut its oil supplies (previously sold at significantly subsidised prices) to them and to charge the dollar market price; secondly, the cost of alternative supplies in the open market has been sent leaping upward by the Gulf crisis.[6]

Particularly the Bulgarian, Czechoslovakian and East German economies are very sensitive to fluctuations in the oil price, as oil imports represent such a high proportion of their hard currency exports (see Table 4).

Table 4

Oil imports as % of hard currency exports

	at per barrel prices $10	$20	$30
Bulgaria	40	80	120
Czechoslovakia	30	60	90
East Germany	22	44	88
Hungary	7	14	21
Poland	11	22	33
Romania	4	8	12
Yugoslavia	5	10	15

Source: Morgan Stanley

However, despite the rather gloomy outlook for the short-term (confirmed by recent ECE figures which report a 13.4% decline in East European industrial output in the first quarter of 1990, compared with the same period in 1989), there are several positive elements which would enable a recovery or an acceleration of growth in the medium-term. Amongst these positive elements is the social consensus and support currently emerging in these countries for a rapid move towards a market economy; furthermore, the willingness of the Western market economies to support rapidly and significantly the process of reform in Eastern Europe (see below) through financial measures, improved access to markets, etc., will clearly give an important boost to the region's growth prospects.

As regards the initial economic costs of transition to a market economy and to pluralist forms of government, interesting lessons can be drawn by East European countries from recent Third World experience, particularly but not only in Latin America. The magnitude of costs of changing from one economic system to another, the difficulty of combining stabilisation and structural reforms (and the importance of appropriate timing and sequencing to reduce total costs), and the fairly long time scale of costs related to both structural reforms and stabilisation are amongst the broad lessons that can be drawn. Similarly, possible lessons can be drawn from the problems and opportunities posed for economic management by recent democratisation processes in Latin America. The particular complexity of East European changes lies in the fact that dramatic political and economic changes are taking place simultaneously, which potentially may imply more economic instability and higher economic costs.

As regards links with the rest of the world, it is important to bear in mind that even though Eastern Europe's economic growth may be relatively modest in the short to medium term, trade between it and the rest of the world may well expand more rapidly. According to estimates by Amex Bank Review,[7] East European economies export only around $400 per head (in convertible currency) compared with exports of $3,437 per head by EEC countries. Were East European countries' trade to come eventually into line with

the average per capita trade in the EC the effect would be large; it would require an almost ten-fold increase in exports and add the equivalent of 10% to existing world trade. However, while this dramatic change could occur, it would be possible only in the very long-term. Prospects for the next 5 years would be far more modest, but still potentially quite significant. If trade liberalisation and other economic reforms succeeded for example in expanding East European exports at a rate of 10% a year (which Amex Bank Review rather optimistically considers realistic, even though these exports have grown by a mere 2% yearly in the last five years), then East Europe exports would add the equivalent of 1% to the total of existing world trade after five years, which is clearly an important amount. (Assuming a very over-optimistic growth rate of 20% p.a. in East Europe's exports, this would add 2.5% to existing world trade after five years; adding in the Soviet Union doubles there figures).

Even though an important expansion of Eastern European exports would take place in the coming years, this would not necessarily result in a significant expanded demand for imports from developing countries. Firstly, part of the increase in the region's exports could be channelled to an increased trade surplus rather than to expanded imports. Secondly, the expansion of imports could be channelled more or mainly to the developed market economies, rather than to developing countries. In this sense, it would seem to be a source of possible concern that in each of the three years, 1987 to 1989, East European imports from developing countries either declined or grew very little, (and less than imports from developed economies), while imports from developed market economies expanded quite rapidly each year (see Table 5).

Table 5

Eastern Europe, growth rates of imports, by partners, 1987-89

	1986	1987	1989
World of	5.0	2.7	-3.6
which from:			
Developed market economies	9.6	8.8	4.3
Developing countries	-10.1	4.2	-5.8
Soviet Union	- 4.3	-6.5	-5.2

Source: Economic Commission for Europe, op. cit., above, Table 3.4.4.

Indeed, even though East European imports from developed market economies increased quite significantly during this period, the level of import value from LDC's actually fell. Though it would be imprudent to extrapolate such a short "trend", it must provide a source of caution, as regards short-term potential for developing country exports.

Diversity of East European experience, the special case of East Germany

Till now we have talked of Eastern Europe as a whole. However, it is also important to stress the diversity of Eastern Europe, both as regards their past economic and political history, their current economic and political structure as well as the pace and support for economic reform. These factors will not only affect these countries' future economic performance, but also naturally the impact which their economic evaluation will have on LDC's.

Just to illustrate the diversity of East European countries, we will do so with some external debt indicators, which are of relevance to LDC economies, as the debt overhang is one of the elements which may constrain future growth of East European economies and their ability to import from LDC's (and pay for those imports). A clear difference emerges here between countries, such as Poland, Hungary, and Bulgaria with very high debt indicators and many payments difficulties and Czechoslovakia, Romania and East Germany, with minimal debt problems (see Table 6).

Table 6

External debt indicators, Eastern Europe, 1989

	Ratio of net debt to exports to market economies (%)	Ratio of net interest payments to exports to market economies (%)
Bulgaria	321	24.2
Czechoslovakia	51	5.1
German D.R.	115	11.2
Hungary	342	24.6
Poland	456	41.7
Romania	-1	0.6

Source: ECE., op. cit, based on national sources and BIS-OECD estimates. There is also some divergence amongst different sources on the levels of external debt; however, the ranking of countries by debt indicators does not change, according to different sources.

East Germany is of course a special case, in that it will merge economically and politically with West Germany, and has already had a Monetary Union. The East German case is particularly interesting because of the speed and magnitude of the change; furthermore, it is also interesting because the magnitude of financial flows German unity will generate seem likely to have important effects both on financial flows to developing economies and on the cost of servicing existing or future commercial debt, particularly but not only that incurred in Deutsche Marks (DM). For this we will look here in some more detail at German economic and monetary union, so that in the next section we can examine its' likely effects on LDC economies.

East and West Germany have signed a Treaty to establish a monetary, economic and social union. Monetary union has already been implemented in July 1, 1990; this implies a unified currency area and the DM as the common currency; the liabilities and claims expressed in East German Marks were converted into DM.

Monetary union will, among other economic effects, act as a lever and catalyst for immediate market-oriented reforms in East Germany. It will be complemented by economic union, whose "essential features are private property, market competition, free prices and the free movement of labour, capital and services".[8]

We will concentrate here on the aspect of German unity which will most affect developing countries; these include German money supply, German National Budget and Balance of Payments; reference to evolution of GDP and unemployment will be brief.

The terms of monetary union were slightly more generous than the Bundeshank (German Central Bank) had wished; they offered an exchange rate for wages, salaries and pensions at a rate of 1:1. Furthermore,

most East German individuals were allowed to convert up to 4000 GDR marks at the rate of 1:1; other claims and liabilities were converted from East German marks to DM at a rate of 2:1.

The effect on the total German money supply resulting from currency conversion in East Germany is estimated to lead to an increase in M3 (defined as cash in circulation, short-term deposits, time deposits up to 4 years and savings deposits at statutory notice) of around 10-12%.[9]

This would seem to be a similar order of magnitude to the parallel expansion of goods and services, which occurs as a result of incorporating the East German economy into the DM area.

However, important uncertainties remain. These relate mainly to uncertainty as to the level of demand for money in East Germany, under completely new economic circumstances for their population. The task of steering German monetary policy becomes far more difficult.

German Economic and Monetary Union will create unavoidable financial burdens for the German National Budget. The main additional burdens relate to:

a) Anticipated state budget deficits in East Germany.
b) Expenses incurred during the take-off financing of the East German social security system.
c) Infrastructure and investment aid for East Germany.
d) Higher interest payments as a result of additional borrowing in capital markets and on other items.

Recent estimates[10] for the all-German budget deficit calculate a very sharp increase, from around DM22 billion in 1989 (for West Germany alone) quadrupling to around DM80 billion in 1990, and further increasing to at least DM100 billion in 1991! This would imply an increase from less than 1% of GNP in 1989 to around 5% in 1991. This would exert a large pressure on both domestic and international capital markets (see below Section IV). Recent press reports[11] indicate that projections of East German budget deficits are being increased, as additional expenditures are added for items such as pension and health insurance funds, extra Soviet payments and subsidies to companies for Comecon exports paid for in unusable transferable roubles.

Forecasts for the evolution of economic activity and of employment in East Germany vary considerably, with optimistic forecasters focussing on the long-term, and pessimistic ones focussing on the short-term. Indeed, there are fears that output could fall significantly in East Germany during 1990 and 1991, with sharp rises resulting in unemployment, and some risks for social and economic stability. Figures for the first half of 1990, showing East German industrial output falling by 9.5% in the second quarter, steel production declining by 30% in the first half of 1990 and unemployment increasing from practically zero to 1 million by

August 1990 seem to confirm such fears, particularly for the short-term. These trends would put further pressure on the National Budget, so as to avoid heavy social and political costs of German unity.

IV.1 Likely changes in financial flows to and from Eastern Europe; effects on developing countries

a) Foreign direct investment

Eastern Europe provides both a set of opportunities and a set of obstacles to western multinational corporations and other potential investors.

The most compelling reason for foreign investors to be attracted to Eastern Europe seems to be strategic[12]. Being the first into the region can help secure a company's position for a potentially large and growing market place, not just for Eastern Europe but possibly for the Soviet Union and, for Asian investors, even to the EEC. Furthermore, those first to enter the market will have their pick of joint venture partners. The low cost of skilled labour will also attract export oriented manufacturers.

There are however serious obstacles to investing in Eastern Europe. These include a legal system ill-equipped to protect the interests of foreign investors, and supply shortages for intermediate inputs. Furthermore, Eastern Europe infrastructure is very weak: modern communications equipment is scarce; transport facilities are rudimentary and make it hard to conduct business; accounting methods are more focussed on recording production than on financial performance.

Eastern European governments favour equity investment, particularly joint ventures, as a form of attracting foreign capital. This is firstly, because they are reluctant and/or may be unable to attract much international commercial lending (see below); secondly, portafolio investment does not seem yet a practical mechanism because of limited development or nonexistence, of domestic capital markets. Thirdly, East European governments are keen to attract also factors linked to foreign direct investment, such as technology, skill training and management. Though most Eastern European countries are stressing their interest in joint ventures, (which combine capital inflows with other factors), some countries, and in particular Czechoslovakia, are more interested in receiving know-how than the hard currency itself; they may therefore focus more on attracting licensing agreements, management contracts and franchise agreements.

Flows of private investment will increase most rapidly between West and East Germany, as the countries are unified. According to a survey of the Association of German Independent Entrepreneurs, more than 10,000 provisional contacts were established between entrepreneurs in East and West Germany between December 1989 and mid-June 1990 alone; about 15 per cent of these (more than 1,500) had already resulted in specific cooperation agreements. One of the sectors where most dynamism seems to have taken place is in banking; in 1990 alone the major West German banks plan to open more than three hundred

banking offices in East Germany, either through joint ventures with East German banks or utilising new branches[13]. Another sector where West German investment is already playing a major role in electricity generation, as West Germany's three largest electricity generation companies have reached agreement to modernise and take control of East Germany's electricity generation industry[14]. There is, however, some patchy evidence that West German investment interest in East Germany is less clear in some industrial sectors.

It is difficult as yet to assess the likely magnitudes of foreign direct investment flows to East Germany and to the rest of Eastern Europe, partly because of the time lags which tend to occur between expression of interest, commitments and actual disbursements of funds. Furthermore, much of FDI seems to be slowed down by uncertainties on the pace and success of economic reforms in these economies, and especially as regards definition of property rights, which has remained a murky area.

Given the vast size of global foreign direct investment flows worldwide, the fact that these flows do not seem to very supply constrained, and given the relatively small levels which will start flowing to Eastern Europe, the risk of diversion of foreign direct investment flows which would have otherwise gone to developing countries does seem somewhat limited. An important exception to this clearly is West Germany, a country from which large direct investment flows will clearly be going to East European countries. (In this sense it is noteworthy that West German capital is rather dominant already in Eastern European countries, accounting for example for 30 per cent of total foreign capital in Hungary and 35 per cent of the total in Poland).

As West Germany has been such an important source of private flows to developing countries, then there is quite an important risk of a deviation of German foreign direct investment flows that would have potentially gone to LDC's, to go instead to Eastern Europe.

b) Bond markets and Commercial Bank Lending

In recent years, some East European countries, such as Hungary and Bulgaria, have borrowed on the international bond markets.

Over the course of 1989, the costs to Eastern European governments of raising funds in the bond market as well as on the market for syndicated credits have risen sharply.[15] As the Institute for International Finance, the bankers' own organisation correctly concludes: "this suggests that there are clear limits to the quantity of funds which these (East European) countries can expect to raise in international financial markets."

There are clear reasons for believing that many Eastern countries are already close to the limits of total private international borrowing, and that as a result amounts of funds raised in international markets in the next few years may be less than in the recent pact. According to institutions like the OECD, the IIF, and

the ECE, East European creditworthiness is deteriorating. This relates to factors such as: a) recent rapid increase in and high levels of indebtedness of some countries, such as Bulgaria, Hungary and Poland, b) recent poor economic performance, and c) uncertainties and short-term output losses due to political changes, as well as to anticipated political and economic reform.

As regards to commercial banks, it seems likely that the deteriorating creditworthiness detected by bond market participants will also affect the willingness of banks to make additional loans to East European countries. It is interesting to stress that the IIF report quoted above concludes that: "banks will take a cautious approach to future sovereign lending in Eastern Europe ... commercial banks are unlikely to take the lead in providing finance to these countries" and even goes further in calling on "western governments to take the lead in organising assistance through their own national agencies and international institutions".

Within limited bank lending to Eastern Europe in the short to medium term, some distinctions should be made:

a) North American banks have been small players in Eastern Europe and in some cases have in recent years reduced exposure there. Their incentive to lend new money so as to protect existing exposure is small. Because European and Japanese banks already have a larger stake in the region, they may have somewhat greater incentive to lead. As in the case of foreign investors, West German banks will have special reasons to increase their exposure more. Furthermore, bank lending to Eastern Europe may in general be driven to a significant extent by the needs of banks' key corporate clients (with a substantial portion of bank lending being indirect, - to corporate clients, - that will use the borrowed funds to support their own operations in the region). Thus, heavy involvement of West German investors (and possibly others, e.g. Japanese) would also tend to attract more bank lending.

b) Countries within Eastern Europe will not have equal access to bank credit. Factors such as level of indebtedness, prospects for political stability, the country's resource base, as well as trade ties with the Western economics, will contribute to determine creditworthiness. In April 1990, the IIF concluded that based on this type of factor, the most creditworthy countries in East Europe were the GDR, Czechoslovakia and Hungary; to a certain extent, this type of assessment will change as economic and political circumstances do.

It would seem that the effect of changes in Eastern Europe, on bank lending to LDC's will - on the whole - be negligible. This is both because the enthusiasm of international banks to lend to Eastern Europe is fairly limited and because large parts of the developing world (the heavily indebted countries and the low-income countries) have very limited access to bank credit anyway.

Nonetheless, there will undoubtedly be some deviation of interest by bankers (especially in their advisory services) to Eastern Europe; furthermore, West German banks can be expected to increase their exposure

sharply, particularly in East Germany and also in the rest of Eastern Europe, implying risk for deviation of some resources that could have gone to LDC's.

c) Debt

As detailed above, one of the key features of several East European countries in their large debt overhang. The form in which this debt overhang will be tackled may well have important effects in Third World debt management.

Two types of effects can be visualised. One is a substitution effect, whereby limited resources (e.g. from the public pool of resources for private debt reduction allocated in the context of the Brady Plan) would be used for Eastern Europe, thereby limiting available resources for similar operations for the Third World. Though clearly such a risk exists for the future, there seems at the time of writing little evidence that such a constraint has already started to limit debt reduction for developing countries.[16]

The second link between East European developing countries' external debt is that of the precedents which the former can provide for the latter. In the case of Eastern Europe, there is a very strong political motivation and willingness by Western governments and in informed public opinion to provide very large debt reduction, where the debt overhang is constraining efforts at adjustment, structural reform and growth. Indeed, some analysts even explicitly would like to grant massive debt relief to Eastern Europe, if this were not a precedent for Third World debtors. Thus, a recent detailed study published by the Royal Institute of International Studies[17] candidly says: "If the East European countries were the only problem debtors, one might take the view that the sheer stock of debt is such that there is no conceivable way in which it could be repaid. The best way out would simply be to forgive the debt and allow the countries to start again".

In spite of the fears of precedent, this and other studies[18] argue for major debt and interest relief for Eastern Europe.

Indeed, Poland has already obtained exceptionally favourable terms in its' March 1990 Paris Club (official bilateral) debt rescheduling, for an upper middle-income country. Paris Club rescheduling is particularly crucial for Poland because its' total bilateral debt, US$ 27 billion, is very large and represents about two-thirds of total Polish external debt.

In March 1990, Paris Club creditors allowed Poland to reschedule virtually all payments on pre-cut off date debt falling due during the consolidation period, as late interest and, more significantly, most of the moratorium interest were capitalised. The total amount consolidated, $9.4 billion, was the second largest in the history of the Paris Club, the largest rescheduling, $10.9 billion was also with Poland in 1985! Creditor countries also agreed to set up a joint working party, with Polish government representatives, "to examine matters relating to Poland's financial obligations to Paris Club governments".

Official creditors tried to state that this did not create a precedent, by stating in the Agreed Minutes that they were granting terms and conditions which reflected "their support for the far-reaching and historic changes taking place in the Polish economy". However, these exceptional rescheduling terms should be examined very carefully by debtor countries, especially relating to: a) the outcome of the working group in debt reduction, which is to report in March 1991, and to which the Polish government is reported to have requested 80 per cent debt reduction[19], b) larger maturities (Poland was the second middle-income country to obtain fourteen years), and c) capitalisation of moratorium interest, a novelty in the framework of the formal Paris Club procedures.

Till 1990, the Paris Club had ruled out debt reduction except for some low-income countries. Pressure to help Poland may help eventually bring the exception that could break the rule.[20] Indeed, it has been reported that one of the factors determining the June 1990 Bush initiative in its' debt section (which for the first time opens up debt reduction to Latin American countries on U.S. bilateral debt) is the powerful precedent beginning to be set by Poland.[21]

It is up to developing country debt negotiators to monitor carefully Eastern European debt rescheduling and relief operations, and lobby effectively for similar innovations and concessions - where relevant - to be implemented in Third World debt management. An element to stress (both in monitoring and lobbying) is also the speed and timeliness (as well as the generosity) with which Western creditors have responded to debt rescheduling, postponement of interest payments and debt reduction for countries such as Poland, so as to support stabilisation efforts; similar speed and timeliness would also be very valuable to LDC's in similar circumstances.

d) Official Flows

Perhaps the area where there seems to be most risk of diversion of financial resources from flows to LDCs to Eastern Europe is that of official flows, and particularly that of ODA, as the supply constraints (of available funds) seem much sharper, especially in donor countries where the budgetary situation is particularly tight. Though some observers believe that such diversion would only be short-term (based on high initial costs of transition), there is increasing evidence that the timescale for change, and therefore the need for Western Support will be very long.[22] Therefore, this is an issue which requires careful analysis.

In what follows, we will briefly review the available, as yet rather incomplete, information on official flows to Eastern Europe, and examine risks of diversion of resources.

Given the clear interest in Western Europe to support the changes in the East, the President of the Commission of the European Communities provided some ideas of the scale of aid that he thought might be provided by the EEC to Eastern Europe;[23] he suggested that if the six East European countries were given the same support as provided by the Community to its own depressed regions, the level of assistance (through the EEC and the European Investment Bank) would amount to roughly $23 billion a year, for the next 5-10 years. The Economic Commission for Europe has estimated that implementing Mr. Delors' proposal would absorb around 0.45 per cent of the European Community's GDP in 1989.

Even though this is clearly an upper limit to potential contributions from the EEC to Eastern Europe, the magnitudes suggested here have caused fears amongst LDC governments of potential diversion of flows DAC Aid Ministers have reacted with repeated reassurances that "support for Eastern Europe will not diminish their determination to give high priority to their development cooperation with the Third World".

There is as yet no comprehensive estimate of total Western support to Eastern Europe; however, the OECD has been mandated to produce such an estimate by late 1990. Some preliminary estimates have been produced by the ECE and others.

Western support for Eastern Europe was originally undertaken in response to appeals from Hungary and Poland, and given the name of PHARE (Pologne/Hungrie: Assistance le Reconstruction Economique). The EC was given responsibility for coordinating the efforts of 24 Western countries that agreed to participate; in June 1990, the G-24 representatives responded to changes in Bulgaria, Czechoslovakia and the GDR by broadening this initiative to also cover these countries. Discussion has now begun for possible support to the Soviet Union.

Table 7

Partial list of international financial commitments to Hungary and Poland, for 1990 and after
(Million US dollars)

	Bilateral credits		Investment and credit guarantees		Grants and assistance for 1990		
	Hungary	Poland	Hungary	Poland	Hungary	Poland	Announced objectives
Australia	..	151	..	..	..	..	
Austria	..	83	..	146	1.3 [a]	1.3 [a]	
Belgium	..	..	85	85	6	6	Training programmes for three years
Canada	14	..	..	17	8	8	Fund for private projects
Denmark	..	46	..	153	23 [a]	23 [a]	East European industrial fund
Finland	100	..	..	..	0.2	15.9 [a]	Training; environmental protection for Poland
France	348	..	..	678 [b]	..	16 [a]	Technical aid and training
Germany, Fed.Rep.of	587	..	493 [c]	1614	14	12 [a]	Training for Hungary
Greece	..	..	..	..	..	..	
Iceland	..	..	..	..	..	..	
Ireland	..	40	..	..	..	..	
Italy	219 [a]	40 [d]	..	446 [a]	1	9	Training; medical aid for Poland
Japan	500	500 [a]	400	350 [a]	24 [a]	51 [a]	
Luxembourg	..	..	..	..	..	0.6	
Netherlands	..	..	..	..	2	5	Medical supplies for Poland; training for Hungary
New Zealand	..	..	..	..	0.2	0.2	Training and environmental protection
Norway	..	..	..	23	..	3	Training and environmental protection for Poland
Portugal	..	..	..	..	..	..	
Spain	..	..	100	..	..	..	Training
Sweden	150	..	..	..	..	49 [a]	Environmental protection for Poland
Switzerland	..	..	..	..	50 [a,f]	99 [a]	Technical, economic and humanitarian aid
Turkey	..	..	108	100	0.8	0.8	Training, grant in local currency for investment
United Kingdom	..	..	..	..	33 [a]	66 [a]	Know-how fund
United States	..	..	40	200	92 [a]	321 [a]	
Nordic countries	..	..	..	..	..	47	Environment
Sub-total	1917	920	1226	3811	253	732	
EEC	1000	..	..	..	150 [a,j]	716 [a,g,i]	
EIB	527 [a,j]	675 [a,j]	..	..			
ECSC [h]	105 [a,j]	135 [a,j]	..	..			
IMF	208	723	..	..			
World Bank [k]	990 [a]	2527 [a]	..	..			
Sub-total	2830	4060	..	..	150	716	
Total above	4748	4880	1226	3811	403	1448	

Source: ECE secretariat estimates, based on official communiqués and newspaper reports, using exchange rates as of 5 March 1990.

a Commitments for 1990 and the next 2-4 years.
b From this FF900 million for the creation of an investment fund in France.
c Current exposure, no restriction on further cover.
d For the creation of a specialized bank in Italy.
e $180 million for individual projects, $180 million for Italian firms, $80 million for co-financing with the World Bank.
f Open for other east European countries.
g Including $275 million food and agricultural aid.
h European Coal and Steel Community.
i Assuming that credits will be disbursed according to IMF quota proportions.
j Excluding any share of the ECU 1.85 billion under consideration for all east European countries 1991-1992.
k Including $27 million for the International Finance Corporation.

In Table 7, a partial list of commitments to Hungary and Poland can be seen. G-24 governments and international financial institutions have committed some $6.3 billion in new credit facilities and grants to Poland and $4.8 billion to Hungary. Of these around $1.4 billion for Poland and $0.5 billion for Hungary are grants; the ECE estimates that $0.6 billion of grants has been given to Poland in 1990 alone.

The relative magnitude of the effort can be seen by comparing with total ODA flows, which in 1990 can be expected to reach around $60 billion; thus aid to Poland would roughly be around 1% of total ODA flows to developing countries, a relatively limited amount, but a relatively large one if the size of the Polish economy and population, and above all its' level of income is considered. If such aid flows to Poland are sustained, if other East European countries would receive similar amounts of aid, and if those resources were at least

partly to come out of aid budgets, then fears of some (though not very major), diversion of resources are clearly justified. Furthermore, if the Soviet Union were to receive equivalent (to the size of its' economy) grant support in future years and those were not entirely additional, clearly the risk of diversion of aid resources would become a fairly major issue.

As regards multilateral flows, the EEC has approved European Investment Bank (EIB) lending to Hungary and Poland for ECU1 billion over a three-year period.

Poland obtained a $723 million stand-by from the IMF, in late 1989, which triggered off a number of western credits, including a $500 million bridge loan from the BIS and gave access to Poland to World Bank funds; some $1.0-$1.4 billion were earmarked by the World Bank for disbursement to Poland in 1990 and $2.5 billion during 1990-1992. Poland also received, from the major industrial nations, a special credit, of $1 billion, known as a Stabilisation Fund, which is intended to provide Poland with a supplement of reserves to support its' new foreign exchange regime.

Given the balance of payments problems and the magnitude of structural reforms being undertaken by Poland and the other Eastern European countries, some of which, like Czechoslovakia are now joining the IMF and World Bank, it would seem likely that they will continue to draw significant amounts from the Bretton Woods and other multilateral institutions. In the near term, multilateral institutions, such as the World Bank, have some leeway to expand total lending with existing resources, and therefore ensure additionality rather than "crowding out" of lending to LDC members; the World Bank's $75 billion capital increase in 1988 in particular allows it to add to its' programmes without making cuts to others. Over the longer term, however, both the World Bank and the IMF may require an increase in resources to take account of its' expanded membership and their fairly large financial requirements (particularly if and when the Soviet Union joins). Such an increase in resources would not be difficult to obtain, provided there is political willingness to do so, as in the case of the World Bank most of the OECD contributions would be in the form of callable capital, that is guarantees, rather than cash. These guarantees would allow the Bank to increase its' borrowing from international capital markets where, in contrast to foreign aid, supply constraints are much less significant; in the case of the IMF the process of increasing quotas has been increasingly difficult, and has led to a decline in the real value of the size of the IMF; such a trend may be more difficult to reverse.

Similar considerations to those applied to the World Bank may apply to the European Bank for Reconstruction and Development, (EBRD), a new financial institution set up by 42 countries in May 1990, to help the emerging democracies of Eastern Europe.[24]

The EBRD will have a capital base of 10 billion ECU, around US$12 billion (the shares of member countries' in the EBRD can be seen in Table 8). It will be able to make investments and loans totalling up

to this amount in Eastern Europe over five years (that is around $2 billion annually). Thirty per cent of the capital will be paid in by the Bank's members, of which at least half will be in cash payments (the latter would equal around $2 billion). The remaining 70 per cent of capital stock will take the form of callable capital. As with of the case of other regional development banks, this money will not actually be paid "up-front"; its main purpose will be to provide backing for loans which the new Bank will be able to raise on the World's financial markets, and thus where competition with institutions lending in LDC's (e.g. IADB, or other regional banks) should be very limited. However, the part of resources devoted to capital paid in by governments (and particularly that part paid in cash) to the EBRD may imply some risk of "crowding out" new resources for example from other multilateral organisations, unless additionality is again clearly established.

Table 8

Members of the EBRD

Members of the EBRD with their shares of the Bank's capital stock.

European Community	%	Other European countries	%
Belgium	2.28	Austria	2.28
Denmark	1.20	Cyprus	0.10
France	8.52	Finland	1.25
FR Germany	8.52	Iceland	0.10
Greece	0.65	Israel	0.65
Ireland	0.30	Liechtenstein	0.02
Italy	8.52	Malta	0.01
Luxembourg	0.20	Norway	1.25
Netherlands	2.48	Sweden	2.28
Portugal	0.42	Switzerland	2.28
Spain	3.40	Turkey	1.15
United Kingdom	8.52		
EC	3.00		
EIB	3.00		
EC total	*51.00*		
Recipient countries		**Non-European countries**	
Bulgaria	0.79	Australia	1.00
Czechoslovakia	1.28	Canada	3.40
German DR	1.55	Egypt	0.10
Hungary	0.79	Japan	8.52
Poland	1.28	Korea, Republic of	0.65
Romania	0.48	Mexico	0.30
USSR	6.00	Morocco	0.10
Yugoslavia	1.28	New Zealand	0.10
		United States	10.00

More generally, the focus, glamour and improved career prospects of working on Eastern Europe seems likely to attract some of the best and brightest talent of people in the international financial arena, with

many of them leaving careers dedicated to work in developing countries; this trend seems particularly strong in the case of multilateral organisations. Senior policy-makers and politicians in developed countries are also finding that their limited time is being channelled to deal with Eastern Europe, potentially distracting some of it from developing countries.

At the level of funding for multilateral lending, and for bilateral development assistance, there is a risk that there will be some deviation of resources from potential lending or giving grants to developing countries; this may be particularly damaging in preventing new initiatives, for example through regional development banks, obtaining additional funding[25]. Key new priority areas in developing countries, such as social or environmental spending, may be more difficult to fund, particularly if their very nature requires some concessionality in financial terms.

Perhaps one of the best ways for developing countries to lobby for levels of aid and multilateral lending to be sustained to them, and not be crowded out by Eastern Europe, is to emphasise that assisting Eastern European countries has different policy objectives than channelling flows to developing countries. Given East European countries' relatively high income levels (see above), assistance to them is mainly required for motivations such as the wish to contribute to potential stability, to solidarity (in the case of Europeans) with other Europeans, to make their transitions to market economies as successful as possible. Though these are important objectives for the developed countries' governments and peoples, they are clearly distinct from those motivating development assistance, which are mainly alleviating poverty and extreme poverty. As a result, it is important to separate as distinctly as possible funds going to Eastern Europe from those going to developing countries, and attempt to ensure that the former are additional and thus do not come, directly or indirectly, from budgets earmarked for assistance or lending to developing countries.

As regards official flows to developing countries, there is also a qualitative effect arising from changes in Eastern Europe. These relate to renewed emphasis on political conditions (relating to human right and democratisation) as part of overall conditionality attached to these flows.

The emphasis on political conditionality has positive aspects, particularly if the effect is to increase official flows to developing countries beginning - or attempting to consolidate - more democratic regimes. This would both reflect appropriate recognition for the specific difficulties faced by democratic regimes in economic policy-making and strengthen democratic forces in periods of transition. However, fears have been expressed that the positive link between democratisation and timely increase in international official flows may be more true for Eastern Europe then for developing countries, and even that political conditionality may mainly be used as a mechanism to reduce total official flows to LDC's, if implemented mainly in a negative sense, as curtailing flows to non-democratic Third World regimes.

This is a field where research is required, firstly to monitor the effect of the new political conditionality on different donors' bilateral flows and on multilateral flows, and secondly, to attempt to define general and objective criteria for determining how "democracy" should be measured and rewarded, as well as "lack of democracy" be measured and "punished". The lack of such general, transparent and objective criteria could potentially lead to an unfair application of political conditionality, determined by factors such as geo-political interests of major donors.

Another important effect of events in Eastern Europe (and the Soviet Union) are likely changes of their own development assistance to LDC's. Confronted with their own problems, (including large budget deficits) related to major economic and political changes, these countries are very unlikely to increase aid to developing countries, and have already started to reduce such flows fairly significantly. The Development Assistance Committee (DAC) estimates that for the 1987-88 period, the average annual value of ODA from CMEA countries was $4.7 billion, of which $4.2 billion came from the Soviet Union, $0.2 came from East Germany and $0.3 billion came from the rest of Eastern Europe (total CMEA development assistance representing around 9% of world ODA). Clearly a decline in such flows (and of the practice of preferential pricing in their trade with developing countries) will be damaging to the LDC requirements of such aid. As CMEA aid is fairly heavily concentrated (particularly on Cuba, Mongolia, Vietnam and India), these countries would suffer most from reduction of aid to them; some of the other countries which receive CMEA aid, such as Bangladesh, Pakistan, Tanzania, Ghana and Sierra Leone, are also low-income ones, and therefore cutbacks in aid potential could be very damaging.

The trend towards reduction of aid from Eastern Europe to developing countries seems likely to be reinforced by the fact that Western donors seem to regard it as anomalous that, at the same time as Eastern European governments are requesting official funds, they are providing aid to Third World countries. Reportedly[26], this was one of the reasons why the Soviet Union already announced in its' 1990 Budget, a cut in aid by 25% on the previous year.

e) Interest rates

One of the most important likely effects of changes in Eastern Europe on financial flows to and from LDC's in the impact on international interest rates.

In particular, German interest rates (both short and long-term) have already risen quite significantly in 1989 and the first half of 1990, and are projected by different sources, including the OECD, to continue rising, though more moderately in 1991 (see Table 9). There seems to be agreement among different analysts that the major factor explaining the increase in German interest rates was the prospect of monetary union with East Germany, operating according to the OECD, through three main channels. First, the expected increased long-term future demand for long-term loanable funds (both by the private and government

sector) has already pushed up real interest rates; secondly, inflation expectations may have risen (for reasons discussed in section III above); thirdly, the risk premium (for long-term bonds) has increased, due to increased uncertainty. Furthermore, within Germany (and throughout Europe) upwards pressure on interest rates has been reinforced by changes occurring in the rest of Eastern Europe; rebuilding these economies through fairly significant capital investment is seen to imply both an additional call on world savings in the 1990's, and greater pressure on the supply potential of OECD economies, pushing up both the real and inflation components of interest rates across all European (and possibly across all OECD) markets.

Table 9

Interest rate developments in Germany

	1987	1988	1989	1990	1991
Short-term rates	4.0	4.3	7.1	8.8	9.2
Long-term rates	6.2	6.5	7.0	8.8	9.1

Source: OECD, Economic Outlook, June 1990

It is interesting to note that a model developed by Dirk Morris[27] suggests that the impact of German unification on world interest rates on average - more in Germany and countries that peg their exchange rates to it, less elsewhere - would be around 1%; naturally interest rates will also fluctuate due to other factors.

The increase in interest rates, caused by German monetary union and by increased investment demand in Eastern Europe, will increase the cost of borrowing and of servicing existing debt for all LDC's, thus imposing a fairly significant additional burden on already severely constrained balance of payments.

IV.2 CHANGES IN EAST EUROPEAN TRADE FLOWS AND THEIR EFFECTS ON LDC'S

a) Likely changes in trade flows

The breakdown of CMEA

Trade relations in the Eastern European countries are at the moment being characterized by the break down of the CMEA system. The CMEA (Council for Mutual Economic Assistance) is a commercial-economic alliance which, under the dominance of the USSR, had tried to integrate the economies of member countries while favouring the exchange of goods and services. Its creation was a by-product of the world polarisation during the cold war. In 1989, around 60% of Eastern European trade has been taking place within it.

The CMEA was created in 1949. Its member countries are the USSR, Hungary, Bulgaria, Czechoslovakia, Poland, Romania, Mongolia, Cuba and Vietnam. Trade flows within the Council used to be organized between the governments of member countries instead of between autonomous enterprises, within a framework of quinquennial cooperative development plans. The currency used was the transferable ruble, which is not convertible to any other currency. This meant that in the case one country held a surplus in transferable rubles, it could not trade with Western countries on that basis. In general, the CMEA could be considered more of an international system of protection than a system for trade promotion.

CMEA's objective of economic integration between member countries was not achieved. During the 1970s, the system generated a number of industrial cooperation projects. However, in the light of the growing preoccupation from most member countries, especially the USSR, to increase trade links with the West, the 1980s were marked by the perception of need for changes in the system. In the XLIII and XLIV Sessions of CMEA in 1987 and 1988, proposals for the creation of a common socialist market with free flow of factors, goods and services emerged, but these were halted at the XLV CAME meeting in January 1990. In this meeting, it was agreed that the cooperation agreements within CMEA obstructed the social and economic reforms taking place in socialist countries. Radical proposals were put forward by the Soviet Prime Minister Nikolai Ryshkov, namely the use of convertible currencies and the alignment of regional prices with world market prices from 1991 onwards. These were agreed by member countries, while it was established that the reforms will take place as a gradual process in order to enable the economic systems of member countries to adapt to the changes.

The changes taking place within CMEA raise two important issues. First, the implicit subsidies given by the USSR to Eastern Europe through the below world-market prices of energy and raw materials is beginning to come to an end. According to the OECD June 1990 Economic Outlook, a conservative estimate of these subsidies would put them at some US$ 5 billion annually for the six Eastern European countries. The other issue is whether trade in manufactured goods within CMEA would contract while expanding in other directions. Two arguments favour opposite responses to the latter issue. On the one hand, given the inflexibility of the productive structures of the socialist economies, it would be likely that the pattern of intra-CMEA trade would remain. On the other hand, the growing technological sophistication and higher quality of goods available on world markets suggest that increased imports from non-CMEA regions and a reorientation of exports from these markets would occur.

Considering the likelihood of increased trade relations with the European Community, described below, the latter possibility is more viable. Links with the European Community would favour Eastern European countries through lower tariff rates while giving increased access to Western Europe of the markets of Central and Eastern Europe.

Trade policy measures

Various measures concerning tariff and quantitative restriction have been taken or are planned to liberalize east-west trade.[28]

Eastern exports already receive Most Favoured Nation (MFN) treatment in most Western nations. In the United States only Hungary, Poland and Romania have enjoyed these benefits. Hungary was granted MFN status in 1974, but subject to annual review; permanent MFN status was conferred on it in October 1989. Romania renounced these privileges in July 1988, but it is expected that Romania's MFN status will be

restored shortly. The United States has undertaken to restore MFN status to Czechoslovakia and to extend this benefit to the Soviet Union, provided that these countries pass legislation liberalizing emigration. Poland regained MFN treatment in the United States, after a suspension during the period 1982 to 1987

Most EC and certain other G-24 member countries have recently extended the application of their General System of Preferences (GSP) rgimes to Hungary and Poland as of January 1990. GSP treatment was one of the original requests put forward by Hungary and Poland to the members of the Group of 24. Prior to this only Romania had received these privileges from the West.

In November 1989, the EC decided to lift specific (discriminatory) quantitative restrictions on Polish and Hungarian goods as of the beginning of 1990. However, non-discriminatory quantitative restrictions were to remain in place and products subject to sectoral agreements - textiles, steel and agriculture - were not to be affected. Subsequently , the EC Commission proposed additional liberalization measures: a one year suspension of remaining quantitative restrictions on such products as passenger cars, footwear and toys; granting significant increases in quotas on imports of textiles above levels agreed within the framework of the Multifibre Arrangement; finalisation of a new agreement with the two countries on steel products, which would pave the way for the eventual elimination of the quantitative restrictions applied by a number of EC countries.

In a separate initiative, the European Community agreed to a 15 per cent enlargement in steel imports quotas for Bulgaria, Czechoslovakia, Hungary, Poland and Romania. Earlier, the United States had increased Hungary's steel quota by 30 per cent.

The EC has also agreed to provide more favourable treatment for some of Hungary's and Poland's agricultural products, including in some cases tariff rebates as of 1990.

The overall quantitative impact of the trade measures taken by western countries is difficult to assess. Even the estimation of static gains is problematic because eastern exports have often been constrained more by supply factors than by western policies, although this has varied from sector to sector. Quotas have sometimes gone unfilled because sales have failed to be profitable for eastern producers. Hence, the lifting of certain Western restrictions does not automatically imply an increase in eastern exports. However, various studies have shown that MFN tariff treatment has had a strong impact on some eastern exports. In the longer term, the eastern countries could derive large benefits from the dynamic effects of trade liberalization if the reforms succeed in improving the competitiveness of eastern manufactures and result in a more world market-orientated trade policy.

No comprehensive assessment of the impact of the recent trade liberalization measures is presently available. However, a few examples of the estimated benefits to exporters stemming from specific measures

may be given. It is estimated that the EC's GSP represents a potential gain of some ECU 100 million for Hungary and Poland combined. Tariffs applied to their industrial goods (presently in the range of 8-22 per cent) will be lifted totally. The Community's concessions on textiles are estimated to be worth approximately ECU 80 million to Poland and ECU 50 million to Hungary. For Hungary alone, it has been estimated that the EC's consessions on industrial products could yield an additional $60-80 million annually in export revenues. As regards measures taken by the United States, Czechoslovak officials estimate that restoration of MFN by the United States could raise export revenues by some $100-$400 million.

The importance which the West attaches to support for Eastern Europe is reflected on its willingness to increase market access even in the traditionally "sensitive" product areas - textiles, steel, agriculture - despite resistance from some governments and interest groups.

The direction and composition of trade

The direction of Eastern European trade in 1987 and 1988 is presented in Tables 10 and 11 below. It is possible to see that trade among CMEA countries accounts for the bulk of the trade of Eastern European countries. Hungary and Poland have a high proportion of their trade (both exports and imports) with the West, while Romania exported quite a lot to the West but did not import a significant amount.

Table 10 Exports from CMEA countries (US$ billion)

	1987				1986			
	Total Exports	of which CMEA Europe & USSR	OECD	Other	Total Exports	of which CMEA Europe & USSR	OECD	Other
Bulgaria	15.9	12.6	1.2	2.0	17.2	13.3	0.8	3.1
%	100.0	79.7	7.4	12.8	100.0	77.3	4.6	18.1
Czech	22.9	16.9	4.2	2.0	24.9	20.0	3.8	1.1
%	100.0	73.4	18.1	8.5	100.0	80.3	15.3	4.4
GDR	31.2	19.3	9.8	2.2	32.2	23.6	6.6	2.0
%	100.0	61.9	31.2	6.9	100.0	73.6	20.5	5.9
Hungary	9.6	4.8	3.7	1.1	10.0	4.6	4.1	1.3
%	100.0	50.0	39.0	11.0	100.0	46.0	41.0	13.0
Poland	12.2	5.0	5.5	1.7	14.0	6.6	5.7	1.7
%	100.0	41.2	45.1	13.7	100.0	47.1	40.7	12.2
Rumania 1	12.5	5.9	3.6	3.0	11.5	4.9	4.2	2.4
%	100.0	47.2	28.8	24.0	100.0	42.5	36.7	20.8

1. Data for Rmania is of 1986 and 1987.
Source: Credit Suisse First Boston (1990) and Bancomext (1990). "Condiciones actuales y perspectivas de los mercados de Europa del Este" in Comercio Exterior 40(5) May. Mexico

Table 11 Imports into CMEA countries (US$ billion)

	1987				1986			
	Total Imports	of which CMEA Europe & USSR	OECD	Other	Total Imports	of which CMEA Europe & USSR	OECD	Other
Bulgaria	16.2	12.4	2.6	1.6	16.6	11.8	2.4	2.4
%	100.0	76.9	16.0	9.9	100.0	71.1	14.4	14.5
Czech	23.2	17.2	4.6	1.7	24.3	19.6	3.6	1.1
%	100.0	74.0	19.8	7.1	100.0	80.6	14.8	4.6
GDR	30.3	18.7	10.0	1.5	31.1	21.9	7.1	2.1
%	100.0	61.8	32.9	5.0	100.0	70.4	22.8	6.8
Hungary	9.9	4.7	4.2	0.9	9.4	4.4	4.0	1.0
%	100.0	47.3	42.9	9.3	100.0	46.8	42.5	10.7
Poland	10.9	4.9	4.6	1.4	12.2	6.0	5.0	1.2
%	100.0	45.4	42.6	12.9	100.0	48.8	41.3	9.9
Rmania 1	10.6	5.8	1.6	3.2	9.2	4.9	1.3	1.2
%	100.0	54.7	15.1	30.2	100.0	53.5	14.1	13.0

1. Data for Rmania is of 1986 and 1987.
Source: Credit Suisse First Boston (1990) and Bancomext (1990).

The foreign trade of Latin America with countries of CMEA from 1981 to 1986 is presented in Table 12.[29] The amounts are in general modest, the highest value of exchange being exports in 1981 - US$ 5.9 billion - when, due to the US embargo, the USSR bought cereals from Argentina. Total imports from the CMEA countries have been increasing consistently, at an average 19.3% per annum, while exports have been decreasing at an average 14.4% per annum. By 1986, exports from the region had fallen to US$ 2.5 billion.

Table 12

Foreign trade of Latin America with the European countries of CMEA, 1980-1986 (US$ million)

	Imports	Exports
1981	727.2	5896.7
1982	1032.9	3913.9
1983	1106.6	4285.1
1984	1231.6	3679.2
1985	1455.7	3603.2
1986	1715.4	2456.1

Source: Alperstein, A.L. (1990) "Evolucion del comercio de America Latina con los paises europeaos del CAME" in Comercio Exterior 40 (5), May, Mexico

For the above period, the trade balance has been favourable for the Latin American countries. According to Alperstein, op. cit., Brazil and Argentina were the countries with the largest surpluses.

The composition of trade between CMEA and Latin America is given in Table 13.[30] The bulk of exports from Latin America to CMEA countries are foodstuffs, beverages and tobacco, reaching on average 67.4% in the period analyzed.

Raw materials form the second largest exported item, averaging 20.9% of total exports per annum. Other products constitute much smaller proportions of total export from Latin America.

Machinery and transport equipment are the largest item of imports from CMEA countries, though they have been falling steadily as a proportion of total imports, from 55.9% in 1980 to 31.0% in 1985. Chemical products and other industrial articles form one third of the imports from CMEA. The other items, which are mainly primary or semi-manufactured items are the smallest proportion of imports.

Table 3. Composition of trade between CMEA countries and Latin America 1980-1985 (percentages) a

FTUC Chapter 1		1980		1983		1984		1985	
		Exports	Imports	Exports	Imports	Exports	Imports	Exports	Imports
0 and 1	Foodstuff, beverages and tobacco	2.8	69.2	6.5	72.2	6.0	65.9	1.9	62.3
2 and 4	Raw materials, except fuels and animal and vegetable oils	1.1	21.0	5.9	18.1	6.3	21.7	6.4	22.9
3	Mineral fuels, lubricants and related material	8.5	0.5	19.2	2.1	18.6	1.3	20.3	1.3
5	Chemical products	15.9	0.9	25.7	1.0	26.2	0.7	26.4	0.7
7	Machinery and transport equipment	55.9	0.1	31.9	0.0	31.0	2.1	31.0	2.2
6 and 8	Other industrial articles	14.9	8.2	10.5	6.5	11.8	8.3	11.0	8.5
9	Articles not included in previous chapters	0.9	0.1	0.3	0.1	0.1	0.0	1.0	2.1

a. Data from CMEA and member countries of SELA.
1. Foreign Trade Uniform Classification of the United Nations.
Source: Alperstein (1990).

It is possible to observe disequilibria in the composition of trade between the two regions. Final goods exported by CMEA countries represented 70% while in the other direction they represented 10%. Raw materials exported by CMEA represented 8% while those exported by Latin America represented 80% to 85% (Alperstein 1990).

Likely trends in trade flows

At present, as described above, most EC members as well as the U.S. are adopting measures towards the liberalization of East-West trade. It is possible that these measures may affect LDCs as they could crowd out potential preference towards them especially in the GSP.

More generally, the reforms in Eastern Europe with the adoption of currency convertibility and greater openness may have fairly unpredictable effects on trade flows with LDCs. Clearly, two effects need to be considered. On the one hand, Eastern Europe becomes a potential market for increased LDC trade. If this occurred following the pattern of composition of trade observed in the previous section, it could be likely that greater demand for LDC products, particularly for raw materials, foodstuffs and possibly for industrial consumer goods, would occur. In particular demand for non-essential tropical products (e.g. tropical fruit, coffee, tea) can be expected to rise. For example, the Union of Banana Exporting countries is forecasting

an eventual doubling of banana exports to Eastern Europe.[31] Research is required to explore in detail the sectors where demand for LDC exports is rising (and is likely to continue rising).

The other possible effect is that Eastern Europe becomes a competitor to LDCs exports to the developed market economics. This possibility could be particularly relevant, to Western Europe, given the geographical proximity, and the growing links with that region mentioned above.

Positive changes in the trend of trade flows between Eastern Europe and LDCs will remain dependent upon overcoming of numerous obstacles to trade between the two regions. The economic crisis affecting the majority of LDCs, the debt crisis and the growing restriction to imports in most of the Third World make such links more difficult (Alperstein op. cit.). In addition, the unfavourable trade balance of most Eastern European countries with Latin America obstructs an increase in trade with the region, especially in terms of imports of final goods. In the short-run, the recession in Eastern Europe is also likely to affect its trading activities as a whole.

Another obstacle to increased trade with LDCs especially noted during the 1980s, is limited availability of convertible currency in Eastern European countries.

Finally, if the financial difficulties of both regions remains, the ultimate deterrent to trade growth between Eastern Europe and LDCs would remain the non-availability of international credit, unless special financial measures are devised to encourage South-East trade.

IV.3 REDUCTION IN EAST-WEST TENSION AND IT'S POSSIBLE EFFECTS

a) "Peace dividend" for development assistance?

Changes in Eastern Europe and the reduction of East-West tension, leading to what is seen as the end of the Cold War, gave rise to optimism about a "peace dividend", part of which could be used for development assistance and/or environmental assistance to developing countries.

In particular, the end of the Cold War in Europe had begun to free considerable resources, as over half of world military spending takes place in Europe.

However, pressures have arisen within developed countries to use any available "peace dividend" domestically; as the May 1990 IMF "World Economic Outlook" points out, in the US public discussion of the "peace dividend" had focussed on using it for increased domestic spending on education, drug enforcement, the environment, infrastructure, etc, rather than on development assistance; clearly a significant effort would have to be undertaken in lobbying by those sympathetic to development assistance, so as to ensure that at least part of any peace dividend does go to development assistance. Besides the

lobbying itself, it seems particularly crucial for international and/or national bodies to identify items and specific plans for development expenditure, (e.g. environment, social spending) which could be funded from the peace dividend.

A previous question is whether and to what extent there will be a peace dividend. In concrete, arms control in Europe has not as yet produced much in the way of concrete results, despite all the enthusiasm about the agreement of intermediate nuclear missiles (INF) in Europe; moreover, the INF agreement covers just three per cent of the total nuclear arsenal. Furthermore, some of the conventional weapons unilaterally withdrawn in Eastern Europe have been exported into the Third World. Even more undesirable is the fact that nuclear, biological, chemical and ballistic-missile technology is increasingly transferred to and developed by more countries.

The danger of this latter factor is clearly illustrated by the Gulf crisis, caused by Irak's invasion of Kuwait. The Gulf crisis has not only damaged in the short-term the prospects of a significant "peace dividend" arising and being partly channelled to development purposes, but has put an "armaments logic" again as centre-piece of relations between states, thus sharply diminishing the beneficial effects of the end of the Cold War.

b) Reduction in Third World military expenditure

A second positive effect of the reduction of East-West tension - the reinforcement of the tendency to cut LDC's military spending - may also have been limited, at least temporarily, by the Gulf crisis. Since 1984, Third World military expenditure has been declining fairly significantly[32], as a result of many countries' difficult foreign exchange situation. It is hoped that the reduction of East-West tension will further accelerate this process, as there would be less superpower involvement in Third World countries and particularly as left/right ideological elements in developing country conflicts would disappear or be moderated. Though there have been positive signs in this direction (in Central America, Southern Africa, Afghanistan and South East Asia), the limits of the positive effects are again clearly illustrated by the Gulf crisis. Naturally, Third World regions not directly affected by the Gulf conflict (e.g. Latin America) could continue to benefit from the expenditure; such a move could be further reinforced by trends toward democratisation, as peace and democracy tend to be long-term mutually reinforcing processes.

c) Reduction of domestic tension

A reduction of East-West tension and international ideological tension potentially could also reduce domestic tensions within LDC countries (e.g. between left and right), leading to greater ease for consensual mechanisms of government to work. This would seem more likely to lead to more stable and open governments, particularly insofar as left/right ideological tensions are not replaced by other ideological

tensions (e.g. nationalistic or religious ones). Reduced ideological tension between left and right should furthermore facilitate the design of economic policy, as well as easing it's implementation; this would be both because there will tend to be less disagreement between different schools of economic thought and less ideologically motivated conflict between different social groups.

V CONCLUSIONS AND ISSUES FOR RESEARCH RELEVANT TO LDC POLICY-MAKERS

A. Conclusions

The impact of changes in Eastern Europe on developing countries is as yet difficult to ascertain in detail, as events are beginning to unfold. A preliminary assessment can be made, with a need to review it and to monitor actual trends.

The main preliminary conclusions are:

a) Eastern European economies are small on a world scale as regards their output, population and their trade. Therefore their effect on creating additional demand for developing countries will also be relatively small: however interesting opportunities are beginning to open up, in areas such as raw materials and tropical foodstuffs. Eastern Europe's increased access to developed country markets (particularly the EEC) may give them some competitive edge over LDC exporters, but again the magnitudes of displacement would seem likely to be fairly marginal.

b) As regards financial flows, the impact of changes in Eastern Europe seem likely to be bigger, as there seems likely to be some deviation of resources, particularly official ones from developing countries to Eastern Europe. Given initial imbalances, the costs of such a complex transition and the political support for large official flows into Eastern Europe, resources channelled to that region are likely in the medium-term to displace some development assistance. Furthermore, LDC's will be further affected by the reduction of development assistance from Eastern Europe and the Soviet Union, reduction which has already begun. As regards private flows, the risk of deviation is far smaller, as supply is far less constrained; there seems likely, however, to be some deviation of German private flows (particularly direct investment) to East Germany, from funds that could have been invested in LDC's.

There will therefore be a likely asymmetry of effects, with stronger (and mainly problematic) effects in the financial aspects, and weaker (and mainly positive) effects in the trade aspects. An active effort must be made by LDC entrepreneurs, governments, regional organizations, etc to benefit from the trade expansion effects. Relevant research should support such an effort.

c) It is important to emphasise that most East European countries do not fall into the category of developing countries, due to their relatively higher levels of GDP per capita and their even relatively higher welfare indicators (such as life expectancy).

Official support for them from donors should therefore be additional and remain separate from funding to LDC's as it's motivation differs from that of development assistance.

d) Very important effects from changes in Eastern Europe may well be indirect ones.

One of them is the rise in German (and other European) interest rates, resulting from the funding of German monetary and economic union which will reduce German net savings. This will increase debt servicing costs for developing countries.

A more positive effect may be the precedent which East European external debt rescheduling/debt reduction operations may contribute to get for LDC debtors. Again here active efforts by LDC researchers and debt negotiators are required, to monitor developments in East European debt negotiations and use them - where relevant - as precedent.

e) Further potential positive effects may arise from the reduction of East-West tension. These may be reflected in a "peace dividend" in the developed world, part of which could be channelled to development assistance. Furthermore, Third World countries may themselves reduce their military expenditure, as reduced ideological tension and superpower confrontation diminishes, thus freeing their resources for growth and development.

B. Issues for research

1. Relevance of LDC experiences for Eastern Europe

Before examining areas of economic research particularly relevant to LDC policy-makers, it seems worthwhile to stress aspects of existing LDC experience and research that is of potential relevance to Eastern European policy-makers and academics. Clearly experience cannot mechanically be transferred, but broad lessons can be extracted and repetition of costly mistakes hopefully avoided.

Third World experience and research would seem particularly relevant in the following areas:

i) Efforts of economic adjustment and stabilisation; timing and sequencing of adjustment and stabilisation as well as timing and sequencing of different structural reforms (e.g. trade vs. financial liberalisation). Appropriate regulation of financial markets.

ii) Issues of conditionality and cross-conditionality. This may be particularly relevant as concern for the need for improved donor coordination has often been expressed in the context of Eastern Europe, given the large number of bilateral donors and international organisations involved. The LDC experience seems to offer interesting lessons for both donors and East European recipients, on the content and the form of the policy dialogues as well as the bargaining on policy conditionality.

iii) Linked to i), there seem to be specific lessons from the experience of economic management in processes of transition to democracy. The dangers of accelerated inflation in such democratisation processes can be well understood from recent Latin American experiences; furthermore, positive policy lessons from the more successful experiences (e.g. Uruguay and hopefully Chile) can also be extracted.

iv) Long-term development experiences. The success of the newly industrializing economies and how to interpret them. What lessons their experience can offer, for different aspects of policy-making, of links between public and private sector, etc., to Eastern European nations?

v) More specific areas of policy-design could be examined, where LDC's have relevant experience, to offer; two examples are debt-equity swaps and debt for development swaps.

As regards the modality for transferring relevant policy and research experience, it would seem of interest for example to use existing networks of LDC policy-makers and researchers to present (through conferences, papers, etc.) their experience to East European colleagues. With relatively small additional cost, fairly important spin-off benefits for East European colleagues could be achieved. Furthermore, LDC policy-makers and researchers would profit from their improved understanding of East European experience.

2. Suggestions for economic research, relevant to LDC policy-makers

i) Evaluation of East European experiences

Relating to the previous point, it seems essential that LDC researchers and policy-makers understand the complexities of changes beginning to take place in Eastern Europe and their effects on these economies. This field of study is of interest in itself, and for possible policy lessons for LDC'S, and because international financial institutions (such as the IMF. and World Bank), bilateral donors and other international actors will use the Eastern European experience as a precedent, example, and comparator; though most East European countries are not developing countries, their experience will become an important part of the development and adjustment debate. It is therefore valuable that LDC researchers and policy-makers have their own understanding of changes in Eastern Europe, and their effects on economic variables. Such understanding can be gained both through conferences , for example using existing networks of Third World researchers to meet East European researchers and policy-makers, as well as through systematic study, by LDC researchers of the East European experience.

ii) Evaluation of impact of changes in Eastern Europe on developing economies

Research is required in monitoring and evaluating effects of changes in Eastern Europe on developing economies; such research then can give a more solid basis for action by policy-makers, businessmen and others; these actions can either be to take advantage of new opportunities, e.g. export to new markets or lobbying to avoid undesirable (from an LDC perspective) changes and/or their consequences, e.g. a potential deviation of aid flows.

From the above analysis, it would seem that priority research would be in the following areas:

1) Potential for trade expansion, particularly for exports. Such research should look in great detail at potential for LDC exports, by East European countries and by specific products; separate studies should be conducted for different categories of LDC's, according to the structure of their exports, etc.

Particularly important for expanding LDC exports is the availability - or not - of sufficient foreign exchange of different Eastern European countries. For those East European countries with difficult balance of payments situation, the possibility of creating special credit mechanisms to fund their imports from LDC'S (financed for example by the EEC) should be explored.

2) East European debt rescheduling/debt reduction/new finance

To what extent are there innovative elements in East European debt rescheduling/debt reduction, both for official and private debt. Can these innovative elements be used as precedent for developing countries; if so, under what circumstances?

To what extent are new mechanisms sources of financial flows (either public or private) being used for Eastern Europe? How large are they? How could similar flows, if desirable, be attracted to different categories of developing countries?

3) Peace dividend

Will there be a peace dividend generated in the developed and in the developing countries? What are likely orders of magnitude?

For a peace dividend in developed countries, what specific detailed proposals can be made to spend it in LDC's (e.g. global or regional targets for environment or social spending). To ensure that there is a peace dividend and it is converted at least in part to development assistance, what political economy and technical issues exist for such conversion to take place?

What are the political and technical issues for a locally generated "peace dividend" to be created in developing countries themselves? How does this vary according to the political regime, relative level of development and/or other variables? What magnitude could it take in specific countries/regions and how could it be spent?

4) Official flows

What trends are occurring in official flows (both ODA and non-concessionary) to Eastern Europe, after the new governments emerged? What effect does this have on flows to different categories of developing countries?

5) Classification issues

What is the GDP per capita for different East European countries; how does it compare to different categories of LDC's? How does their welfare, if measured by other indicators (e.g. social ones) place them relatively to LDC's? What does this imply for donor governments, IFI's, and NGO's policies towards them, particularly as regards development assistance and especially grants?

Given the wide variety of estimates and perceptions of ranking of East European countries, such studies should be of interest not just to LDC researchers and policy-makers, but also to donors, international organizations, NGO's and others.

6) Political conditionality of official flows

Should there be/and is there political conditionality applied to Eastern Europe? What criteria are applied by different donors to encourage democratisation and discourage non-democratic behaviour. Are similar criteria relevant for LDC's? Are they being used in the same way? Could relatively objective and universal criteria for democratic conditionality be developed? Would they be fairer than current practice? What criteria should be used?

What have been the effects of political conditionality on official flows and on political developments, in Eastern Europe and in LDC's? Even if desirable in potential effects, does not such conditionality add an additional layer to an already thick web of intermingling conditionalities? If political conditions are added, should not economic conditions be reduced/simplified?

7) Effects on world interest rates

What is the effect of changes in Eastern Europe, and in particular of the process of German unification, on world savings and investment and specifically on German (and other closely related European) interest rates? What is their effect on different LDC's debt servicing obligations? How can the first question best be answered? What mathematical models could most appropriately provide relatively realistic answers?

FOOTNOTES

1. Source: Institute for International Finance, Building Free Market Economies in Central and Eastern Europe: Challenges and Realities, Washington D.C., April 1990.

2. For a good discussion on these problems, see "New thinking about national statistics" in Economic Commission for Europe. Economic Survey of Europe in 1989-90. UN, 1990 Geneva.

3 UNDP Human Development Report 1990, New York, OUP 1990.

4 See, UNICEF, The State of the World's Children, 1990.

5 Economic Commission for Europe, Economic Survey of Europe in 1988-89, p.5.

6 J. Dempsey, "Ailing eastern Europe sails into an oil slick", Financial Times, August 15, 1990.

7 "Eastern European Reform, Calculating the Impact on Trade, Lending and Investment", Amex Bank Review April 23, 1990, vol.17, no.4.

8 Treaty between the Federal Republic of Germany and the German Democratic Republic, establishing a Monetary, Economic and Social Union, 18 May, 1990

9 See, for example, Deutsche Bank, German Economic and Monetary Union, July 1990, Frankfurt, West Germany; OECD, Economic Outlook, June 1990, Credit Suisse First Boston "The Interim Arithmetic of GEMU", April 1990, London.

10 For example, Deutsche Bank, op. cit.; press reports.

11 D. Goodhart "East's budget deficit widens", Financial Times, August 10.

12. See, for example, IIF, op. cit.

13. Deutsche Bank, op. cit.

14. "W. German utilities to take over East's power industry" Financial Times, July 30 1990.

15. For details, see, OECD Financial Market Trends, February 1990.

16. See, for example, M. Faber and S. Griffith-Jones (eds.), Approaches to Third World Debt Reduction, IDS Bulletin vol.21, no.2, April 1990.

17. J. Rollo, with J. Batt, B. Granville and N. Malcolm The New Eastern Europe: Western Responses, RIIA and Pinter Publishers, London 1990.

18. See, for example, M. Nuti "Internal and international aspects of monetary disequilibrium in Poland" in EEC, European Economy, March 1990, no.43.

19. Interview material.

20. See, R. Portes "Development vs. Debt: Past and Future" in Faber and Griffith-Jones (eds.), op. cit.

21. Interview material; Also, the Bush speech that launched the "Enterprise for the Americas" initiative, argued that the concern that change in Eastern Europe would divert U.S. attraction from Latin America is unfounded, as the US will continue its' strong links with the region.

22. See, for example, Rollo et al, op cit.

23. Address by Jacques Delors to the European Parliament presenting the Commission's Programme for 1990, Strasbourg, 17 January 1990 (EC press release).

24. For details, see UK Treasury Economic Progress Report no.208, June 1990.

25. Interview Material.

26. E. Mayo "The Second and Third World: the effect of changes in Eastern Europe on the Third World" Mimeo. World Development Movement.

27. D. Morris, Government Debt and International Financial Markets Pinter, London, 1988, quoted in G. Holtham "A hint of relief before the savings drought" in The Independent, 26 August 1990, London.

28 The summary in the following paragraphs is based on E.C.E., op.cit.

29 Includes the USSR.

30 Includes the USSR.

31 E.Mayo, op. cit.

32 See, for example, Report on North-South Roundtable, held in January 1990 on Peace and Security.